An Analysis of Agenda 2000

The European Commission's Agenda 2000 agricultural reforms will have little impact on U.S. agriculture. The reforms will continue to move the EU away from price support mechanisms, but will not eliminate the EU's surplus production problems. For most commodities, the Agenda 2000 reforms do not appear to be sufficient to make the EU competitive on world markets. Therefore, the EU will probably continue to find it difficult to export above its Uruguay Round commitments for most commodities. [Susan Leetmaa (sleetmaa@econ.ag.gov) and Jason Bernstein (jasonb@econ.ag.gov)]

For the past 2 years, the European Union (EU) has been contemplating agricultural policy reform. At a summit meeting in Berlin, the European Council, the heads of state of the countries that make up the EU, agreed on a reform package on March 26, 1999. The reform agreement, Agenda 2000, is a 6-year (2000-2006) financial package that includes agricultural policy reforms and is designed to ease the enlargement of the EU to Central and Eastern Europe (CEE) and prepare for World Trade Organization (WTO) negotiations. Agenda 2000 includes reforms of the arable crops (grains and oilseeds), dairy, and beef sectors. The reforms will shift the EU further from price supports to direct payments and modify supply control measures. The agricultural policy reforms that were finally adopted were considerably less substantial than those originally proposed by the European Commission in July 1997.

Analysis of Agenda 2000 suggests that when the current package is implemented, most EU agricultural commodities will continue to be uncompetitive in world markets, as EU prices will continue to be above world market prices. Thus, the EU will continue to need subsidies to export most of its agricultural products, and the volume of its exports will be constrained by its WTO commitments on subsidized exports.

EU Farm Policy and Agenda 2000

Until the EU's 1992 reform of its Common Agricultural Policy (CAP), high internal prices provided the majority of income support to farmers. The 1992 reform lowered EU support prices, supplementing farmers' income with direct payments, and imposed a land set-aside for supply control. Agenda 2000 builds on the 1992 reforms by further reducing prices for some commodities while compensating producers for half of the price decline through direct payments.

Agenda 2000 was originally proposed in July 1997 by Franz Fischler, the EU farm Commissioner. The European Commission revised the original proposals and EU farm ministers further revised Agenda 2000 on March 11, 1999. The farm ministers' proposals were less ambitious than the Commission's because they phased in the price cuts. The Agenda 2000 package that was finally approved by the European Council was even more watered down than that of the farm ministers, calling for smaller cuts in support prices and delaying the implementation of dairy reforms.

The final agreement calls for:

- reducing the grains support price 15 percent (18 euro/mt, down from Fischler's 20 percent, 24 euro/ton), to be phased in over 2 years and to be partially offset by an increase in direct payments (9 euro/ton);
- reducing direct payments to oilseed producers by 33 percent over 3 years, equaling the grains payment in 2002 (originally no phase-in and a 28-percent cut);
- setting the base rate[3] of the required land set-aside for arable crops at 10 percent during 2000-2006 (base rate was set at zero in original proposal);
- reducing the support price for beef 20 percent to 2,224 euro/ton (down from 30 percent originally to 1,950 euro/ton) to be phased in over 3 years and partially offset by direct payments;
- delaying dairy reform until 2005/06 (original proposal called for a 10-percent decline in price, and the most ambitious proposal called for a 15-percent price decline to be in place by 2003);
- increasing the dairy quota 1.2 percent in the first 2 years, with the increase going to specified deficit countries and starting in 2005, increasing the quota an additional 1.2 percent over 3 years for the remaining countries. (A 2-percent quota increase was originally proposed to be allocated to young farmers and farmers in mountainous regions);
- fixing total agricultural spending for 2000-2006 at 40.5 billion euros in real terms (originally the budget was not fixed).

[3] The base rate is the default set-aside rate. To change the set-aside rate from the base rate, the EU member countries would have to agree on a new rate.

Analysis of Agenda 2000

The impact of Agenda 2000 on the European agricultural sector was analyzed using the ERS European Simulation Model (ESIM). ESIM is used in formulating the official USDA agricultural baseline projections for the EU. The Agenda 2000 scenario is compared to the 1999 USDA baseline projections, which do not impose Agenda 2000.

Because the results are compared to USDA baseline projections, it is important to understand the underlying assumptions that were made in developing the baseline. The baseline assumes that the EU will use unreformed CAP mechanisms to meet its limits on subsidized exports. For grains, the key policy mechanism has been the land set-aside to constrain surplus production. Increasing EU grain yields have generated large grain crops. Therefore, the set-aside rates are higher in this baseline than in past baseline forecasts, from 5 percent in 1998/99, to 10 percent in 1999/2000, to 15 percent from 2000/01 to 2002/03, and then to the maximum of 17.5 percent from 2003/04 for the remainder of the baseline.

The baseline assumes that the EU will not increase intervention purchases and accumulate stocks beyond the historical average level. Accumulation of intervention stocks is viewed as a short-term strategy for dealing with excess grain supplies. For grains, it is assumed that any production in excess of intervention purchases and on-farm use that cannot be exported will depress the internal market price and dampen output. Therefore, to prevent large accumulation of intervention stocks, market prices were allowed to fall as much as 15 percent below current intervention levels for wheat and barley in the baseline, and up to 25 percent for other coarse grains. In the actual baseline projections, however, domestic market prices for these commodities rarely fell that far. The price of wheat fell as much as 2 percent below intervention, but averaged 1 percent below intervention. The barley price averaged 4 percent below intervention, falling to 15 percent only once. While the price of other coarse grains averaged 17 percent below intervention and reached a low of 19 percent below intervention, stocks were allowed to increase above historic highs.

Unsubsidized export markets for the EU are possible but only when the world price is equal to or greater than the average EU price. In the baseline the EU price for wheat falls below the world price, allowing unsubsidized exports of wheat to begin sometime in 2002/03. For pork and poultry, the baseline assumes that market prices adjust to clear the internal market and that more than half of all EU exports of pork and poultry are unsubsidized.

Continued limited intervention for beef, a shrinking dairy herd (due to yield increases and the dairy quota), and measures to encourage less intensive production methods are assumed to limit beef production. To prevent surpluses from accumulating in the face of lower consumption, the baseline assumed that the EU imposed price and other reforms to align beef supply and use without allowing stocks to exceed historic highs. The price of beef had to fall as much as 19 percent below intervention to keep stocks from exceeding 800,000 tons.

Potential Impact of Agenda 2000

Arable crops. Under the EU's Agenda 2000 proposals, EU grain production would increase above USDA's baseline projections. The baseline analysis assumes a land set-aside of 15 percent for 2000-2002 and 17.5 percent for the remainder of the projection period. The 10-percent set-aside requirement will make more land available for production than was assumed in the baseline. However, grain yields are expected to be slightly lower than baseline projections, due to the 15-percent cut in price.

Agenda 2000's impact on grains is contingent on world grain prices at the time of the reforms. Based on USDA grain price projections used for USDA baseline analysis, the EU grain intervention price would be below U.S. wheat prices but above the U.S. prices for corn, barley, and oats. This would likely cause the internal EU wheat price to move above the intervention level, since EU wheat producers would receive the world price for their exports. The price of other grains would remain at the intervention level. Growing wheat in the EU would be more profitable than growing other grains, shifting some acreage out of coarse grains and oilseeds and into wheat.

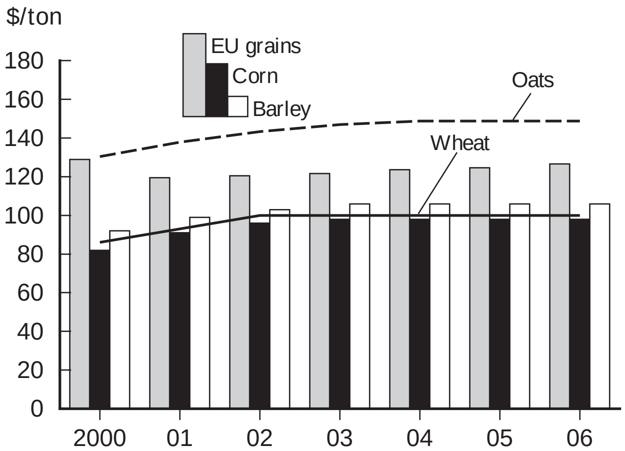
The reduction in EU oilseed payments would initially cause a slight shift out of oilseed production, into wheat production. However, oilseed production would be slightly higher than USDA baseline projections, due to the imposition of the 10-percent set-aside (assumed to be 15 percent in 2001-2003 and 17.5 percent for the remainder of the USDA baseline).

Grain feeding would increase, due to the price cut, at the expense of meal feeding. If the internal wheat price moves above the internal price of the other grains (since EU farmers could receive the higher world price on the export market), wheat feeding would decline while feeding of barley and corn would increase.

The 15-percent price cut could make EU wheat competitive on world markets in 2000, compared to 2002/03 in our baseline, eliminating the need for export subsidies. However, the proposed support price is well above USDA projected world prices for coarse grains (fig. 4). EU wheat exports would increase above USDA baseline estimates, while coarse grain exports would remain at the subsidized levels committed to under the WTO.

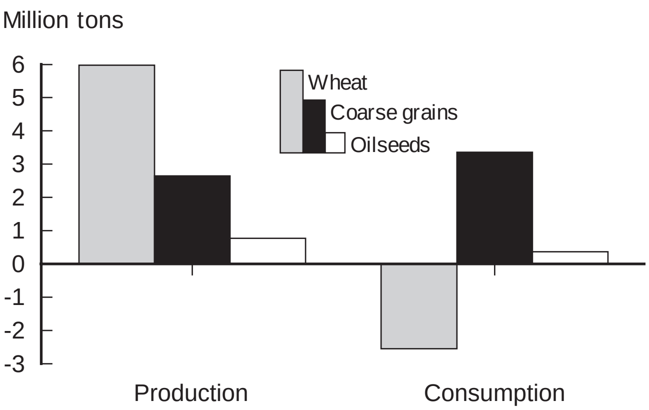
The 15-percent cut in the EU's intervention price will also translate directly into lower import barriers for the EU. The maximum duty-paid price is set at 155 percent of the EU intervention price. When the intervention price drops,

Figure 4
Comparison of EU and World Grain Prices



Source: Economic Research Service, USDA.

Figure 5
Changes in EU Production and Domestic Use of Grains Relative to Baseline in 2005



Source: Economic Research Service, USDA.

import duties will decline as well. It is possible that premium wheat such as U.S. Dark Northern Spring wheat, Canadian Western Spring wheat, and maybe even U.S. Hard Red Winter wheat could enter the EU duty-free. However, it will be easier for these premium wheats to enter the EU early in the marketing year, due to a 1 euro/ton increase in the payment for each month that intervention is open (November to May) to compensate for storage costs, which would increase the tariff.

The EU currently has large stocks of rye, and the policy changes in Agenda 2000 will likely lead to further increases. Production of other coarse grains (mostly rye and oats) exceed our baseline estimates (due to the 10-percent set-aside that was assumed to be 17.5 percent in the baseline). Additionally, rye feeding would decline, as barley and corn command the same price and are preferred feeds. With higher production, lower consumption, and the same export volume, the only place for the additional rye production to go is into intervention stocks. According to our estimates, EU rye stocks could more than triple by 2007.

Dairy. Dairy reform has been postponed until 2005. However, milk production will increase 1.2 percent a year due to the increase in the dairy quota. The quota will increase another 1.2 percent from 2005 to 2007. The support price for skim milk powder (SMP) will fall 15 percent over the same 3 years. The reduction in the butter price is not analyzed.

Analysis of the EU's WTO export subsidy notifications suggests that current dairy prices are too high to allow the EU to export dairy products without a subsidy. The EU will need to subsidize dairy product exports until at least 2005. This could lead to difficulty in reaching certain markets, due to subsidized export limits the EU agreed to in the Uruguay Round Agreement on Agriculture (URAA). Currently, all EU butter exports, nearly all SMP exports, and 82 percent of cheese exports are subsidized (table 1). Because the 15-percent price reductions are far smaller than the average export subsidies for both butter and SMP, the EU will probably need to subsidize much of its exports even after the dairy reforms are implemented. There is no EU support price for cheese. However, butter and SMP are components in the production of cheese. Therefore, dairy reform is not likely to make EU cheese competitive in most markets.

Beef. The EU currently holds nearly a million tons of beef stocks, in part due to the bovine spongiform encephalopathy (BSE) crisis, which curtailed demand. Holding these stocks is costly and because of high EU beef prices, production has exceeded consumption. The beef reforms were proposed to reduce the EU's beef stocks.

Due to lower feed costs and increases in the dairy quota and direct payments, beef production will decline only slightly, since about 70-80 percent of EU beef is a byproduct of the dairy herd. Only if the full 20-percent cut in beef prices is passed on to the consumer will consumption be stimulated enough to eliminate EU beef stocks. If only half the price cut reaches consumers, the EU could reduce beef stocks to about 150,000 tons by 2007.

Because the EU's market price for beef is so far above that in other world markets, all EU beef exports must be subsidized. Under Agenda 2000, the support price for beef will decline 556 euro/ton, far less than the average export sub-

Table 1--EU dairy products will not be competitive under Agenda 2000 reforms

	Average subsidy 95\96	Percent of exports subsidized 95/96	Average subsidy 96/97	Percent of exports subsidized 96/97	15-percent reduction in price
	Ecu/ton		Ecu/ton		Ecu/ton
Butter	1,750	100.0	1,999	100.0	492
SMP	584	97.3	631	98.7	308
Cheese	1,036	82.5	675	85.7	N/A

Souce: Economic Research Service, USDA.

Table 2--Agenda 2000 will not make EU beef competitive on world markets

	Average subsidy	Subsidized exports	Percent of exports subsidized	2000/01 WTO volume bound	20-percent reduction in price
	Ecu/ton	1,000 tons		1,000 tons	Ecu/ton
1995/96	1,478	1,019	92		
1996/97	1,297	1,177	100	821.7	556

Souce: Economic Research Service, USDA.

sidy of 1,478 euro/ton in 1995/96 and 1,297 euro/ton in 1996/97. Thus, the EU would still need to subsidize its beef exports, which would be constrained by the EU's subsidized export commitments under the WTO.

Impact on the U.S. Farm Sector

The U.S. farm sector is likely to be little affected by Agenda 2000 with the exception of wheat. Only EU wheat exports are likely to increase significantly due to Agenda 2000. The large increase in EU wheat exports will drive down the world price of wheat about 4 percent by 2005. Consequently, U.S. wheat production would decline about 1 percent (less than a million tons) and consumption would increase slightly, driving exports down by about 1.5 million tons.

EU producers of dairy, beef, and coarse grains will continue to be shielded from international market signals as their internal prices will continue to be supported above world prices, and the EU will need to subsidize its exports of those commodities. The volume of subsidized exports is limited by the EU's export subsidy commitments under the WTO. Therefore, exports are not likely to increase much above WTO export subsidy limits, which will decline from now until 2000, at which point they will be fixed. The next round of WTO talks on agriculture are to begin at the end of this year. At that point, export subsidies could be further cut or even eliminated (as the Cairns group is pushing for). Therefore, unless the EU undergoes further reforms and its commodities reach world prices, exports of many EU agricultural commodities could decline in the future.

This analysis is based on world price projections from the official USDA baseline process from February 1999. If world prices are higher than projected in that baseline, the EU could be more competitive on world markets than projected. Conversely, if world commodity prices are lower than baseline projections, the EU could be less competitive.

Since world prices have fallen over the past year, we have run some simulations with lower world price assumptions. Our results have not differed significantly, in that only EU wheat becomes competitive on world markets. However, with a lower world price for wheat, EU wheat production and exports will not increase as much as when the official baseline prices were used in our analysis. The increase in EU wheat exports under lower world price scenarios ranged from 7 to 15 percent, compared to 33 percent under the baseline price scenario.

Comparison of ERS Analysis to Other Studies

At this time, there are few published studies that analyze the impacts of the Berlin summit agreement on European agriculture. However, several studies have analyzed the impacts of the original Agenda 2000 proposed by the European Commission in 1997. We compare our analysis to two studies commissioned by the European Commission, and two conducted by the Food and Agricultural Policy Research Institute (FAPRI), one that analyzes the Berlin agreement (UMC) and one that analyzes an earlier Agenda 2000 proposal. The Commission analyses were conducted using the SPEL model at the University of Bonn, and the CAPMAT model at the University of Amsterdam. It is difficult to compare the studies directly, because the Agenda 2000 scenarios differ. More importantly, base assumptions, such as willingness to build stocks, price transmission between institutional and market prices, and macroeconomic and world price assumptions, vary as well. However, general comparisons can provide some insight as to how the ERS analysis compares to that of other organizations. We do not compare dairy, since the reforms have been postponed until 2005. The comparisons are made between Agenda 2000 and baseline (pre-Agenda 2000) scenarios in 2005.

Arable crops. The Berlin agreement reduces the mandatory land set-aside rate from 17.5 to 10 percent, a smaller decline than under the original Commission proposal, which reduced the set-aside rate to zero. Since the final set-aside rate under the Berlin agreement is higher, one would expect smaller increases in arable crop area and production than under the Commission proposal. However, set-aside assumptions in the base scenarios vary by study, so arable area increases vary considerably in the Agenda 2000 scenarios. Additionally, price assumptions vary considerably across the studies.

All studies find coarse grain consumption increases more than wheat consumption, following the decline in market prices. However, ERS analysis of the Berlin agreement indicates a decline in wheat consumption, due to lower producer prices for coarse grains that act as a substitute for feed wheat. All of the studies except FAPRI-UMC find that oilseed area will increase under Agenda 2000, resulting in larger production. However, the ERS and SPEL studies find that the increase in area will be smaller than the area coming out of set-aside, while the CAPMAT and FAPRI studies find that the increase will be greater than the area coming out of set-aside. The SPEL study assumes that oilseed prices will be lower than the other studies do, therefore oilseed area increases much less than in the other studies.

Livestock. All of the studies find that beef production will be relatively stable, due to partially offsetting direct pay-

Table 3--Changes from baseline results (i.e. continuation of 1992 reform) in 2005

Commodity		ERS	FAPRI-UMC	EU-SPEL	EU-CAPMAT	FAPRI
				Percent		
Set-aside	Base	17.5	10.0	17.5	5.0	10.0
	Agenda 2000	10.0	10.0	0.0	0.0	0.0
Wheat	Support Price	-15.0	-15.0	-20.0	-20.0	-20.0
	Area	6.4	4.0	6.3	8.6	12.3
	Production	5.8	3.3	6.3	7.4	8.2
	Consumption	-2.9	0.1	1.9	2.4	1.8
	Exports	33.0	5.4	N/A	18.6	37.8 1/
Coarse grains	Support Price	-15.0	-15.0	-20.0	-20.0	-20.0
	Area	4.5	2.1	6.3	3.9	5.2
	Production	2.5	1.2	5.8	2.4	3.2
	Consumption	3.4	0.9	2.5	4.5	3.3
	Exports	0.0	2.9	N/A	-9.1	N/A
Oilseeds	Area	6.1	-2.8	4.0	8.9	10.3
	Production	5.0	-2.5	3.2	5.6	11.1
	Consumption	1.2	0.1	0.6	-3.4	2.4
	Exports	4.5	-3.1	N/A	N/A	-4.0 2/
Beef	Support Price	-20.0	-20.0	-30.0	-30.0	-30.0
	Production	-0.6	-2.2	0.5	-0.6	2.8
	Consumption	7.0 3/ 1.1 4/	2.8	3.1	7.8	2.3
	Exports	0.0	-33.6	N/A	-26.5	0.0
Pork	Production	0.4	-0.5	-0.6	1.6	0.8
	Consumption	0.4	-0.6	-0.5	1.3	0.7
	Exports	0.4	0.7	N/A	N/A	2.1 1/
Poultry	Production	1.0	-0.5	-1.3	2.2	0.5
	Consumption	0.7	-0.6	-1.1	0.9	0.4
	Exports	3.6	0.6	N/A	N/A	2.0 1/

1/ Net exports. 2/ Net imports. 3/ Assumes full price transmission to the consumer. 4/ Assumes consumer price falls 5 percent.

Souce: Economic Research Service, USDA.

ments, lower feed costs, and the increase in the dairy quota. Beef consumption is projected to increase in all of the studies, though the magnitude varies. The ERS analysis finds that cuts in producer prices for beef more than offset the impact of relatively lower feed costs on pork and poultry prices, causing a relative increase in beef consumption.

Most studies find that pork and poultry production will rise in response to lower feed costs and increased demand. Only the SPEL analysis foresees a drop of about 1 percent in white meat production and consumption, as the large drop in the price of beef leads consumers to substitute beef for white meat. The consequent declines in the prices of white meats outweigh the decline in feed costs, therefore production declines. The ERS study finds that pork production and consumption both rise about 0.4 percent. Poultry production rises 1 percent while domestic consumption rises only about 0.7 percent. The difference between poultry production and consumption is due to the increased competitiveness of EU poultry exports vis-à-vis other countries.

The Possibility of Further Reform

The EU has built in the ability to expand on the Agenda 2000 reforms in the near future. Most commodities are required to undergo a mid-term review, at which point the European Council will decide whether the initial Agenda 2000 reforms are producing the desired results. If budgetary commitments (or possibly WTO commitments) are not being met, the Council will call for further reforms.

Conclusions

The European Commission’s Agenda 2000 package will have little impact on U.S. agriculture. The reforms will continue to move the EU away from price support mechanisms, but will not eliminate the EU’s surplus production problems. For most commodities, the Agenda 2000 reforms do not appear to be sufficient to make the EU competitive on world markets. Therefore, the EU will probably find it difficult to export above its Uruguay Round commitments for most commodities.

Because EU politicians have repeatedly stated that Agenda 2000 will be the EU’s position in the upcoming WTO round on agriculture, it is unlikely that the EU will be pushing to further liberalize global agricultural trade. It is quite possible that Agenda 2000 will be a challenge to overcome for U.S. and other negotiators in the WTO trade talks on export subsidies.

Agenda 2000 changes to EU agricultural policies

1999 EU policies	Agenda 2000
◆ agricultural budget set at a moving ceiling of 1.27 percent of GDP	◆ agricultural budget fixed at 40.5 billion euros per year, in real terms
◆ mandatory land set-aside 10 percent	◆ mandatory land set-aside 10 percent
◆ cereal intervention price 119 euro/ton	◆ cereal intervention price 101 euro/ton
◆ direct payments to cereal producers of 54 euro/ton, or 207 euro/hectare based on average regional cereal reference yields	◆ direct payments to cereal producers of 63 euro/ton, or 290 euro/hectare based on average regional cereal reference yields
◆ direct payments to oilseed producers of 94 euro/ton, or 359 euro/hectare based on average regional oilseed reference yields	◆ direct payments to oilseed producers of 63 euro/ton, or 290 euro/hectare based on average regional cereal reference yields
◆ beef support price of 2780 euro/ton	◆ beef support price of 2220 euro/ton
◆ suckler cow premium 145 euro/animal	◆ suckler cow premium 200 euro/animal
◆ male bovine premium 135 euro/animal	◆ male bovine premium 210 euro/animal
◆ SMP support price 2060 euro/ton	◆ SMP support price 1750 euro/ton
◆ butter support price 3280 euro/ton	◆ butter support price 2790 euro/ton
◆ no payment per ton of milk produced	◆ 17 euro/ton of milk produced
◆ dairy quota set at 117 million tons	◆ dairy quotas set at 120 million tons

However, if Agenda 2000 does not produce the desired results (meeting budgetary commitments and WTO limits), the reforms could be revised as soon as 2003, after undergoing mid-term reviews.

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